

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0729-03
Bill No.: SB 181
Subject: Revenue Dept.; Insurance - Automobile; Motor Vehicles; Licenses - Motor Vehicles; Insurance Dept.
Type: Original
Date: February 14, 2011

Bill Summary: Reinstates the Motorist Insurance Identification Database program which expired on June 30, 2007.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	\$0	(Could exceed \$7,019,096)	(\$1,170,548)
Total Estimated Net Effect on General Revenue Fund	\$0	(Could exceed \$7,019,096)	(\$1,170,548)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Highway	\$0	\$8,390,154	\$8,677,804
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$8,390,154	\$8,677,804

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	0	21	21
Highway	0	1	1
Total Estimated Net Effect on FTE	0	22	22

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Facilities Management, Design and Construction, Department of Insurance, Financial Institutions, and Professional Registration and Office of State Treasurer** assume the proposal would have no fiscal impact on their agencies.

Officials from the **Department of Public Safety (DPS) - Director's Office** assume that the administrative costs associated with this proposal will be borne primarily by the Missouri State Highway Patrol. The Director's Office assumes that it will have a role in working with the Patrol on establishing a contract for services and on promulgating rules. The Director's Office further assumes that any costs associated with these functions can be absorbed with existing resources.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal is less than \$2,500. The SOS does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the SOS can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the costs of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **DPS - Missouri State Highway Patrol (MHP)** state based on information obtained by the Department of Revenue, the Motorist Insurance Identification Database program was never fully implemented as appropriations were never committed to the funding mechanism provided currently in Section 303.406. Rather, in 2000 the legislature passed HB 1797 which provided a means to curb the uninsured motorist population through an insurance sampling program.

HB 1797 provided the current mandate requiring insurance companies to provide the Department of Revenue with their insurance data on all personal passenger motor vehicles (non-commercial) on a monthly basis. The insurance data collected includes the name of the insurance provider, name of insured, policy number, vehicle identification information, and the policy period. The Department of Revenue continues to collect this insurance data on a monthly basis to date.

Oklahoma is similar to Missouri in the number of registered vehicles. Its insurance verification system was developed internally in one year and is managed in-house. This time frame included the design, testing, and production of this program. It queries in real time for officers as part of the normal vehicle inquiry. Courts have access as well to verify coverage during the ticket process. Currently, Oklahoma's Department of Revenue cannot batch verify insurance. However, the state of Oklahoma believes this is something that can be added without any issues.

ASSUMPTION (continued)

Oklahoma stated insurance agencies were very cooperative and easy to work with, and larger insurance agencies provide web-service interface. They also have 90 days of historical data on site in a database. The insurance companies are able to do logscans on all transactions to track who is running queries. One part-time person maintains the system.

Section 303.406 RSMo

Oklahoma received bids for the project in the range of \$400,000 to \$500,000. Assuming Missouri receives similarly priced bids, the upper end of this range would be the MHP's impact. However, it is very possible that the bids MHP receives could vary from that amount, so this is only an estimate. Additionally, the MHP is researching the possibility of purchasing Oklahoma's system if there are no proprietary issues, and this could potentially reduce the state's fiscal impact.

In addition, the MHP would need to contract with a vendor to manage the program. The vendor would send notifications to anyone in Missouri who canceled their car insurance, and the person would have to prove to the vendor that they were now maintaining insurance somewhere else. The DOR has made the MHP aware of two vendors who provide this service, IVIN and Validati, and the cost is estimated to be between \$1.70 to \$1.95 per notification, including postage. For purposes of this fiscal note, the MHP will use the middle of that range, which is \$1.83. With an estimated 1.1 million insurance policies being canceled each year, the projected cost for this service is \$2,013,000 per year (1,100,000 notifications x \$1.83 each).

One FTE would be required to maintain this database. This would be a Computer Information Technology Specialist (\$47,184 annually) who would maintain the server and additional network infrastructure, as well as ensure proper data transfers occur, and other database administration functions.

This legislation would become effective July 1, 2012, so an initial full year cost is shown for FY13.

The division of motor vehicle is part of the Oklahoma Department of Public Safety, whereas in Missouri, it is under the Department of Revenue.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** provide the following assumptions:

Administrative Impact

The proposal requires the Missouri State Highway Patrol (MHP) to contract with a designated agent to administer the uninsured database, make all initial notifications to citizens, answer telephone inquiries prior to suspension action, and pay for postage, envelopes, etc. Therefore, the MHP should reflect costs in their fiscal note response.

Motor Vehicle Bureau (MVB):

Section 303.409

The promulgation of rules associated with this section will require 40 overtime hours for a Revenue Manager Band 1 to prepare, communicate with executive staff, and finalize the administrative rules and 15 overtime hours for an Administrative Office Support Assistant to finalize and complete all filing requirements with the Secretary of State's Office. It is assumed the additional overtime will cost a total of \$1,417.

It is assumed the MHP's administrative agent will perform all pre-suspension communications with the customer, (i.e. phone calls, email, written correspondence), whereas the DOR will perform all post suspension and reinstatement communications with the customer.

According to DOR records, there are 4.2 million personal passenger liability policies which are reported to the Department pursuant to section 303.412.

The following assumptions for insurance cancellations have been prepared using statistics from the DOR's previous attempts to suspend uninsured motorist's driver's licenses:

- 1.1 million insurance policies are dropped annually from insurance company records.
Of those 1.1 million policies dropped from insurance company records, 10% (110,000) of those individuals will be uninsured and will be suspended.

FTE Requirements

The DOR will require additional FTE resources in order to process suspension information due to non-compliance, respond to post suspension telephone inquiries, prepare written responses to correspondence sent from customers, and process reinstatements and reinstatement fees.

HWC:LR:OD

ASSUMPTION (continued)

Telephone Inquiries:

Based on a program the DOR previously administered which contained similar requirements, the department experienced a 90% telephone inquiry rate. The DOR assumes the same rate for this program after the suspension of the registration. A telephone information operator is expected to process 90 telephone inquiries per day. Assuming 110,000 suspended registrations, 90% of which will result in telephone inquiries and 260 work days per year, the DOR expects to receive an average of 380 telephone inquiries per day. If each telephone information operator processes 90 inquiries per day, the DOR will need an additional 4 Revenue Processing Technicians I to process the phone calls ($110,000 \text{ notices} \times 90\% = 99,000 \text{ annual telephone inquiries} / 260 \text{ work days} / 90 \text{ inquiries per day per operator} = 4.2 \text{ FTE}$). The department will require equipment, floor space and expenses associated with this FTE requirement.

Written Correspondence:

It is estimated that 15% of the 110,000 suspensions will result in written correspondence to the DOR. This will require staff to research the issues presented in the correspondence and prepare a written response. Based on current department expectations, one (1) FTE can research and prepare 30 written correspondence responses per day. Therefore, the DOR expects to respond to 16,500 correspondences per year ($110,000 \times 15\%$). Assuming 260 work days per year, 63.5 pieces of correspondence will be received per day; if each staff processes/responds to 30 pieces of correspondence per day, 2 FTE Revenue Processing Technicians I will be needed to handle the increase in workload ($16,500 \text{ correspondence} / 260 \text{ work days} / 30 \text{ responses per day} = 2.1 \text{ FTE}$). The department will require equipment, floor space and expenses associated with this FTE requirement.

Mailing Increase:

It is estimated the DOR will need to send 200,200 written correspondences to customers via the postal service as noted below:

110,000	Suspension notices
71,489	Reinstatement notices
16,500	Written correspondences
<u>2,211</u>	Hearing notices
200,200	Total Mailings

ASSUMPTION (continued)

Postage Increase:

200,200	Total mailings prepared by Department
<u>x \$.42</u>	Postage rate
\$84,084	Annual postage increase

Documents Cost:

200,200	CTG Correspondence generated
<u>x \$.025</u>	Cost per notice
\$5,005	Annual notices cost

Envelope Cost:

200,200	Correspondence generated
<u>x \$.040</u>	Cost per envelope
\$8,008	Annual envelope cost

Document Imaging:

The proposal will require 2,288,440 documents be digitally imaged in order for the DOR to meet its document retention obligations. One staff person can image 7,500 documents per day; therefore, the DOR will need one (1) FTE Photographic Machine Operator (2,288,440 documents / 7,500 documents imaged per day / 260 work days = 1.2 FTE). This FTE will require necessary equipment, expenses, and work space.

The Motor Vehicle Bureau (MVB) will require the purchase of **1 high volume document imaging machine at a cost of \$25,000** (cost includes software license).

Suspension reinstatement processing:

Of the 110,000 suspensions, it is assumed there will be a 33% (36,300) rate for individuals who have been suspended but are non-compliant for various reasons. This will result in 73,700 individuals who will comply.

Of the 73,700 individuals, 3% (2,211) will request a hearing. Therefore, 71,489 individuals will comply and pay the reinstatement fees (73,700 - 2,211). This will require additional FTE in the form of a Revenue Processing Tech I to process the reinstatements and fees. Based on current DOR statistics, 1 Revenue Processing Tech I can process 350 reinstatements or 346 reinstatement fees per day.

ASSUMPTION (continued)

Assuming 71,489 annual reinstatements, 260 work days per year, and 275 reinstatements processed per day, the DOR will need 1 Revenue Processing Tech I to process reinstatements ($71,489 / 260$ work days / maximum of 350 reinstatements per day = 0.79 FTE (rounds to 1.0 FTE)). In addition, the DOR anticipates 71,489 annual reinstatement fees to be processed. Assuming 260 work days per year and a maximum of 346 reinstatement fees processed per day, the DOR will need 1 Revenue Processing Tech I to process reinstatement fees ($71,489 / 260$ days / 346 reinstatement fees processed per day = 0.79 FTE (rounds to 1.0 FTE)). Therefore, the DOR needs an additional 2 FTE Revenue Processing Tech I to process reinstatements and reinstatement fees.

Management/Supervision:

The requirements of this proposal will create an entire new unit within the Motor Vehicle Bureau which will require management and supervision in order to properly administer the program. This program will require 1 Revenue Manager Band 1 and 1 supervisor to provide the management and supervisory services to the new unit. In addition, the DOR will require equipment, floor space and expenses associated with this FTE requirement.

Public Communications:

The DOR will be required to incorporate the requirements of this proposal into the Department's web site. This will require 120 hours of overtime for research and development by an Administrative Analyst III. It is assumed this overtime will cost \$2,551.

Administrative Hearings:

The DOR estimates 1.1 million notices will be mailed by the Vendor. It is further assumed 90% or 990,000 will comply before suspension and 10% or 110,000 will be suspended. Of the 110,000 suspended, 33% or 36,300, will not comply and stay suspended. Of the 110,000 suspended, 67% or 73,700 will reinstate but of the 73,700 that will reinstate, 3% or 2,211, will request a hearing

FTE will be required to conduct the hearings, issue findings of facts and conclusions of law, and prepare the hearing docket. The DOR assumes it will need an additional 0.5 FTE to conduct hearings ($2,211$ requested hearing per year / 252 days per year = 8.7 hearings per day; and assuming 0.5 hours per hearing = 4.5 hours per day = 0.5 FTE Legal Counsel). In addition, the DOR will be required to prepare findings of fact and conclusions of law. The expected volume is 59 per month with 21 working days per month. Therefore, 2.8 cases can be prepared per day.

ASSUMPTION (continued)

Assuming 2,211 hearings per year and 2.8 cases heard per day, it will take 790 work days to perform 2,211 hearings. $790 \text{ work days} / 252 \text{ work days per year} = 3.13 \text{ FTE Legal Counsel}$. Therefore, the DOR will need an additional 4 FTE Legal Counsel (0.5 FTE for hearings and 3.13 FTE to prepare findings of fact and conclusions of law = 3.63 or 4.0 FTE).

One docket clerk (Senior Office Support Assistant) will be required to prepare and maintain the hearing docket, mail hearing notices, and complete other administrative responsibilities associated with the hearing process.

Driver License Bureau (DLB):

Section 303.406.3(1) would require the DLB to supply self-insured records to the designated agent for inclusion in the proposed "Motorist Insurance Identification Database". The DLB assumes the self-insured records would be provided to the designated agent in electronic format. The DLB currently utilizes a self-insured database but only a minimum of data is entered into this database due to a lack of adequate staffing for the high volume of self insured vehicles covered under this program.

For FY 10, there were 57,719 self-insured vehicles covered. A Revenue Processing Tech I (RPT I) can research and key enter 45 vehicle records daily. Assuming the number of self-insured vehicles would remain the same in the next fiscal year, the DLB would need to hire 5 RPT I (Range A10/Step L) to process the volume of self-insured vehicles ($57,719 \text{ self-insured vehicles} / 252 \text{ working days per year} / 229 \text{ transactions daily} / 45 \text{ transactions processed daily} = 5.1 \text{ FTE}$).

Information Technology - OA-ITSD (DOR):

OA-ITSD will need to develop a new system to interact with the agent's system.

The value of the level of effort is calculated on 72,780 FTE hours and 24,960 contractor hours. Hardware costs are undetermined at this time as there are no specifications on desktop/virtual or system size.

Assumptions: To facilitate positive identification of vehicle owners, violation history, and aging and reinstatement process, a re-write of DOR title and registration systems would be required. The re-write of DOR systems will impact other entities and state agencies that interface with DOR systems and will require a dedicated team of DOR subject matter experts to be dedicated to the project for an extended amount of time.

ASSUMPTION (continued)

This fiscal note impact response does not include nor account for aforementioned interface changes and subject matter experts as those would have to be reported by those entities.

It is estimated that the ITSD effort to complete this task would take more than three years to implement and under DOR/ITSD's current assumptions, a July 1, 2012 effective date is not achievable.

Multiple DOR systems will be impacted. **Hardware costs are undetermined at this time as there are no specifications on desktop/virtual or system size.**

Revenue Impact

Motor Vehicle:

Revenue increase from \$1 annual fee and \$2 fee on biennial for all new and renewal registrations:

In FY 10 there were 3,303,043 biennial new and renewal registrations and 2,541,690 annual new and renewal registrations transactions on file. Per this proposal the DOR would collect an additional \$1 per annual registration/renewal transaction and \$2 per biennial registration/renewal transaction. Assuming the same number of transactions would be processed that were processed in FY 10, additional revenue of \$9,147,776 will be collected in FY 13 and FY 14 and credited to the Motorist Insurance Identification Database Account within the Highway Fund [(2,541,690 x \$1) + (3,303,043 x \$2)].

According to DOR records, there are 4.2 million personal passenger liability policies which are reported to the Department pursuant to 303.412. The DOR's records further reflect that 1.1 million policies are dropped from insurance companies records. Of those 1.1 million policies that are dropped from insurance company records, 10% (110,000) of those individuals will be uninsured and will be suspended. Of those 110,000 suspensions there will be a 33% (36,300) return rate (individuals who have been suspended but are non-compliant for various reasons). This will result in 73,700 individuals who will either request a hearing or comply and provide proof of insurance and pay the associated fine based on the number of offenses. Of those 73,700 individuals, 3% (2,211) will request a hearing leaving 71,489 individuals who will comply and pay the reinstatement fees. The increase in revenue from the reinstatement fees is as follows:

97.5% will be the 1st offense- 69,702 x \$20 fine = \$1,394,040
1.5% will be the 2nd offense- 1,072 x \$200 fine = \$214,400
1% will be the 3rd offense- 715 x \$400 = \$286,000

HWC:LR:OD

ASSUMPTION (continued)

Note: Due to the effective date of July 1, 2012, which is the beginning of FY 2013, there will be no impact to FY 2012 as reflected throughout this fiscal note. However, the impact will extend beyond the fiscal years reflected in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Costs - DOR</u>			
Personal service (21FTE)	\$0	(\$682,954)	(\$686,205)
Fringe benefits	\$0	(\$357,458)	(\$359,160)
Equipment and expense	<u>\$0</u>	<u>(Could exceed</u> <u>\$5,978,684)</u>	<u>(\$125,183)</u>
Total <u>Costs</u> - DOR		<u>(Could exceed</u> <u>\$0</u>	<u>(\$1,170,548)</u>
FTE Change - DOR	0 FTE	21 FTE	21 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(Could exceed</u> <u>\$7,019,096)</u>	<u>(\$1,170,548)</u>
Estimated Net FTE Change for General Revenue Fund	0 FTE	21 FTE	21 FTE
HIGHWAY FUND			
<u>Income - DOR</u>			
Registration and reinstatement fees	<u>\$0</u>	<u>\$11,042,216</u>	<u>\$11,042,216</u>
<u>Costs - MHP</u>			
Personal service (1 FTE)	\$0	(\$47,656)	(\$48,132)
Fringe benefits	\$0	(\$33,702)	(\$34,039)
Equipment and expense	<u>\$0</u>	<u>(\$2,570,704)</u>	<u>(\$2,282,241)</u>
Total <u>Cost</u> - MHP	<u>\$0</u>	<u>\$2,652,062</u>	<u>(\$2,364,412)</u>
FTE Change - MHP	0 FTE	1.0 FTE	1.0 FTE
ESTIMATED NET EFFECT ON HIGHWAY FUND	<u>\$0</u>	<u>\$8,390,154</u>	<u>\$8,677,804</u>
Estimated Net FTE Change for Highway Fund	\$0	1 FTE	1 FTE

FISCAL IMPACT - Local Government

FY 2012
(10 Mo.)

FY 2013

FY 2014

\$0

\$0

\$0

FISCAL IMPACT - Small Business

This proposal would impact small business insurance companies who write private passenger automobile liability insurance policies, small business towing companies performing any nonconsensual towing of a motor vehicle, and any small business owning a motor vehicle in this state. For small business insurance companies there could be a positive fiscal impact if more insurance policies are written. For small business towing companies there may be a negative administrative impact, and for all small businesses owning a motor vehicle, there would be a negative fiscal impact resulting from the increase in registration and renewal fees as well as any business that became subject to a registration suspension and was required to pay a reinstatement fee.

FISCAL DESCRIPTION

This proposal reinstates the Motorist Insurance Identification Database program which expired on June 30, 2007. Under the terms of the reinstated database program, the Missouri Highway Patrol shall by, January 1, 2012, enter into a contract with a designated agent to establish a motorist insurance identification database program to verify compliance with the motor vehicle financial responsibility laws (Section 303.406). The designated agent must, no later than June 20, 2012, develop, deliver, and maintain a computer database to verify compliance with Missouri's vehicle financial responsibility law.

Under the terms of the proposal, insurance companies will be required to provide information to the designated agent. Beginning July 1, 2012, insurance companies shall provide specified policy information to the designated agent (Section 303.412). The Department of Insurance may assess a fine (not to exceed \$1,000 per day of noncompliance) against any insurer who fails to comply with the reporting requirements.

Once the database is operational, the designated agent shall, at least monthly, update the database with information provided by insurers and the department, and compare then-current motor vehicle registrations against the database to see if individuals are maintaining insurance.

Any person knowingly disclosing information from the database for an unauthorized purpose will be guilty of a Class A misdemeanor.

FISCAL DESCRIPTION (continued)

If the database indicates that the owner of a motor vehicle has failed to maintain financial responsibility for 3 consecutive months, the designated agent will notify the owner that the department will suspend the owner's registration if the owner does not present proof of insurance within 30 days of the notification. The notice of suspension shall also notify the owner's right to request a hearing. The proposal also sets forth the periods of suspension (including increased reinstatement fees for repeat violators)(Section 303.409).

The proposal requires motor vehicle owners to pay an annual fee of one dollar when the person registers or renews the registration of a motor vehicle. These fees shall be deposited to the credit of the state highways and transportation fund in an account known as the "Motorist Identification Database Account" and shall be used solely for operating and administering the program (Section 303.406).

Under this proposal, towing companies performing nonconsensual tows shall, within 45 minutes of completing such tows, notify the designated agent of such tows, and provide the following information to the designated agent: (1) Date and time of service; (2) The tow truck operator's name and address; (3) The VIN number and license plate number of the motor vehicle towed; (4) The name of the law enforcement agency requesting the tow, if applicable; (5) The name, address, and telephone number of the storage facility where the motor vehicle has been towed to, if different than the address provided for in subdivision (2) of this subsection; (6) Any additional information required by the Highway Patrol.

After receiving this information, the designated agent shall attempt to locate the automobile insurance company providing insurance coverage on the motor vehicle which was nonconsensually towed. Within 3 business days of receiving the information, the designated agent shall contact the automobile insurer with the information.

This legislation is not federally mandated, would not duplicate any other program

SOURCES OF INFORMATION

Office of Administration -

Division of Facilities Management, Design and Construction

Department of Insurance, Financial Institutions and Professional Registration

Department of Revenue

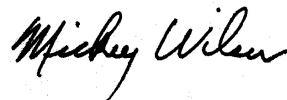
Department of Public Safety -

Director's Office

Missouri State Highway Patrol

Office of Secretary of State

Office of State Treasurer

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 14, 2011